DOCUMENT RESUME

ED 433 469 CE 079 166

AUTHOR	Schuyler, Gwyer
TITLE	Business Incubators: A Review. Digest Number 97-4.
INSTITUTION	Ewing Marion Kauffman Foundation, Kansas City, MO. Center for Entrepreneurial Leadership.
PUB DATE	1997-04-29
NOTE	4p.
AVAILABLE FROM	CELCEE, Kauffman Center for Entrepreneurial Leadership, 4801 Rockhill Road, Kansas City, MO 64110-2046. Tel: 888-423-5233 (Toll Free). For full text: <http://www.celcee.edu>.
PUB TYPE	Information Analyses (070)
EDRS PRICE	MF01/PC01 Plus Postage.
DESCRIPTORS	Adults; Business Administration; Business Education; *Economic Development; *Entrepreneurship; Planning; *Small Businesses
IDENTIFIERS	*Business Incubators

ABSTRACT

A business incubator is an organization of services designed to nurture new businesses. Services that can be offered include management assistance, access to financing, business or technical support services, and shared office services. In 1997, 550 incubators served more than 13,000 clients, affiliates, and graduates. More than 80 percent of the businesses that have graduated from an incubator are still in existence. State governments have begun to support more business incubators in order to foster local economic development, although state support has not kept pace with the increase in incubators. Business incubators generate revenue beyond that directly created by the businesses that participate. Starting a business incubator requires careful planning, including a feasibility study, followed by facility renovation, and business development. Maturity of the business incubator is heralded by greater demand of tenants than the incubator's supply of space and the provision of comprehensive and sophisticated business assistance services. (KC)

****
* Reproductions supplied by EDRS are the best that can be made *
* from the original document. *
****

ED 433 469

Business Incubators: A Review
Digest Number 97-4

U.S. DEPARTMENT OF EDUCATION
Office of Educational Research and Improvement
EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)
☐ This document has been reproduced as received from the person or organization originating it.
☐ Minor changes have been made to improve reproduction quality.
• Points of view or opinions stated in this document do not necessarily represent official OERI position or policy.

G Schuyler

BEST COPY AVAILABLE

CE075166

CELCEE

Kauffman Center for Entrepreneurial Leadership Clearinghouse on Entrepreneurship Education
http://www.celcee.edu

Kauffman Center for Entrepreneurial Leadership
4801 Rockhill Road
Kansas City, MO 64110-2046
(888) 423-5233

Digest

April 29, 1997

DIGEST Number 97-4

Business Incubators: A Review

By Gwyer Schuyler

A business incubator is an organization of services designed to nurture young businesses. A wide range of services can be offered within an incubator, including management assistance, access to financing, business or technical support services, and shared office services such as access to equipment, flexible and affordable leases, and expandable space. Not only do incubator tenants benefit from business and technical assistance, they also benefit from:

- official affiliation with the incubator;
- a supportive community with an entrepreneurial atmosphere;
- direct access to entrepreneurs;
- group rates for health and life insurance plans; and
- immediate networking and commercial opportunities with other tenant firms (So, 1996).

The San Francisco Renaissance Micro Business Incubator program provides members with access to consulting services; office space with phones; office equipment; training rooms; video equipment; mailbox services; and secretarial, word processing and desktop publishing services. The Foodworks Culinary Center in Arcata, California, takes an industry-specific approach to develop food processing micro-industries. The Culinary Center offers a shared commercial kitchen facility; warehouse space; office and business services; and professional services, such as attorneys, accountants and food scientists (So, 1996).

Just as the range of services and benefits of business incubators is wide, so are the missions or objectives. An incubator may be guided by a mission of local job creation, promotion of economic self-sufficiency among a specific population, diversification of the local economy, transfer of technology from universities or corporations, or the development of specific industries (So, 1996).

According to Meeder (1993), three reasons guided the development of business incubators in the 1970s:

- motivation to find new uses for old, abandoned factory buildings in distressed areas;
- funding from the National Science Foundation to cultivate entrepreneurship and innovation at major universities; and
- initiatives of several entrepreneurs and groups of investors to transfer their venture experiences to new companies in an environment conducive to innovation and commercialization.

Based on information from the National Business Incubation Association, a membership organization of incubator developers and managers established in 1985, currently 550 incubators are operating in North America. Over 13,000 clients, affiliates, and graduates have been served by these programs and over 80 percent of businesses that have graduated from an incubator are still in existence (Meeder, 1993). The primary sponsors of the existing incubator facilities are:

- government and non-profit organizations (49 percent);
- universities and colleges (13 percent);
- collaborations between government, non-profit agencies, and private developers (18 percent);
- privately-run investment groups or real estate development partnerships (12 percent);
- a variety of non-conventional sources such as art organizations, Indian tribes, church groups, chambers of commerce, etc. (8 percent).

State-Supported Business Incubators

As state governments have sought ways to foster local economic development, the development of business incubators has gained prevalence. Statewide incubator programs have flourished since the first programs in Pennsylvania and North Carolina in 1983 (Weinberg, Lyons, and Shook, 1995). By late 1985, approximately 12 states had incubator programs; by 1989, about half the states had or were developing programs and by 1994, 49 states had operating business. Studies show, however, that state government financial support has not kept pace with the increase in incubators. This overall decline in state financial support in relation to the number of incubation programs can be attributed to the economic difficulties of the early

1990s and a shift in economic development policy from broad-based programs - such as business incubators - to targeted programs focusing on specific technology and manufacturing needs (Weinberg, Lyons, and Shook, 1995).

Impact of Business Incubators

Business incubators have direct economic impacts on a community, through employment, salary and sales. Utilizing an input-output model to measure total income and employment impacts, Markley and McNamara (1995) found that business incubators provide additional jobs and income beyond those directly employed and paid through the incubators' tenants. For example, in a small metropolitan area, one incubator was found to have employment and income multipliers averaging 1.43 and 1.35. These results mean that, beyond the direct effects, indirect employment and income benefits were realized at rates of 43 and 35 percent respectively.

Business incubators are associated with state revenue growth. Assuming that state tax revenue increases at the same rate as personal income, estimates of tax revenue generated by business incubators can be made. Such an estimate conducted on the incubator discussed above showed a total tax revenue increase of $363,138 per year (Markley and McNamara, 1995).

Starting a Business Incubator

A business incubator, as any new entrepreneurial venture, requires careful planning and preparation, including a feasibility study. Meeder (1993) identifies reasons why a feasibility study is essential to an incubator's success:

- It forges consensus and motivation among civic leaders and organizations;
- It generates creative ways to overcome obstacles;
- It leads to the completion of a business plan;
- It will protect the project from critical errors in facility selection, governance structure, and formation of assistance programs;
- It can increase community education and awareness of business incubation;
- It records the early history and activities of the project, providing a reference point for subsequent staff and board members; and
- It aids in developing contacts with existing successful business incubators in other communities.

As one aspect of initial planning and preparation, the feasibility study involves an assessment of demand, need, capacity, physical location, and community awareness. Along with this information, the entrepreneur planning an incubator must be knowledgeable about the entire developmental processes through which successful business incubators mature. Allen (1988) has proposed a three-stage life cycle:

- Start-up stage, characterized by a feasibility study, identification of the physical space, and culminating in an application for funding;
- Facility renovation and initial development stage; and
- Business development stage, where incubator managers work with potential and current tenants to design and implement a sound business plan.

Maturity of the business incubator is marked by greater demand of tenants than the incubator's supply space and the provision of comprehensive and sophisticated business assistance services.

For further information on successful business incubation start-up and practices, consult the following sources:

- Small Business Administration/ Office of Business Development. (1986). *Small Business Incubator Handbook: A Guide for Start-up and Management*. (SMS No.103). Washington D.C.: U.S. Government Printing Office. (c970450)
- Gray, E. (1989). *Business Incubators: A Partially Annotated Bibliography*. Chicago: Council of Planning Councils. (c970440)
- National Business Incubation Association (NBIA)
  20 East Circle Drive, Suite 190
  Athens, Ohio 45701
  614/593-4331
  Web site: http//nbia.org

References

Allen, D. N. (1988). Business incubator life cycles. *Economic Development Quarterly*, 2(1), 19-29. **c970438***

Markley, D. M. & McNamara, K. T. (1995). Economic and fiscal impacts of a business incubator. *Economic Development Quarterly*, 9(3), 273-278. c970439

Meeder, R. A. (1993). *Forging the incubator: How to design and implement a feasibility study for business incubation programs*. Ohio: National Business Incubation Association. c970451

So, C. (1996). *First look: An introduction to the services of microenterprise development programs*. Unpublished thesis, University of California at Los Angeles. c970452

Weinberg, M.L., Lyons, T. S., & Shook, M. (1995). State government support of business incubators. *Economic Development Commentary*, 19(2), 19, 17-21. c970441

***CELCEE document number**

CELCEE is an Adjunct ERIC Clearinghouse funded by the Kauffman Center for Entrepreneurial Leadership. The opinions expressed herein do not necessarily reflect those of the sponsoring institutions, and no official endorsement should be inferred.